

Solving the Settlements Problem - Notes

LIXI Evening Series - Tuesday 16 June 2009

Hosted by LIXI

Kindly sponsored by Perpetual

Industry delegates included lenders, mortgage processors, lawyers, information brokers, IT suppliers

Speakers included Mike Abel (Perpetual) and Brett Hayton (247legal)

Summary.

There was high level discussion of the issues in Settlement and specifically about the overall industry aims in addressing settlement issues, and metrics by which problems should be measured.

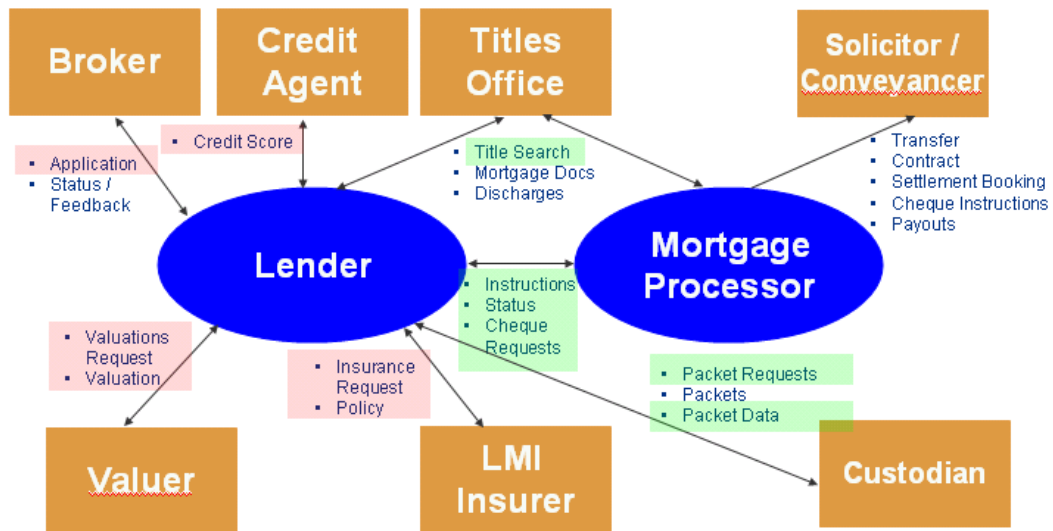
A particular highlight of the meeting was a robust discussion about the future of electronic settlement, as distinct from the future of NECS. There were very strong expectations expressed – virtually unanimous – that industry required settlement solutions and would fill any void in gathering requirements and driving toward solutions.

Introduction

Erik Fenna: Erik introduced the second forum where industry participants could discuss the settlements problem, following on from the Melbourne forum in May. This is a forum for defining the problems and seeing what solutions could apply and the role LIXI can play. LIXI has already done a lot of work with NECS and is currently fulfilling a vital role in the NECS project by developing the standards for the transactions into and out of the NECS platform.

Mike Abel: Presented a diagrammatic perspective of settlement

Mortgage Process – Interchange Points



Mike then presented three overall improvement goals from the mortgage processing perspective:

- Facilitate Automation
- Reduce Manual Entry
- Improve Accuracy
- Reduce Turnaround times

These then indicate some priority areas to be addressed. Mike put forward three specific suggestions to improve industry efficiency.

1. The first of these relates to jurisdictions / land registries lifting their game in the XML stakes, to lobby Land Titles Offices to provide XML title information where the data is guaranteed. This is a requirement since every mortgage and conveyance (transfer) starts and finishes with the Land Registry. A conveyancing transaction, at its simplest, is the updating of the Land Register. Improving the quality and standardisation of the inputs of title information in mortgage processing and conveyancing is essential to achieve end to end solutions (straight through processing) and in turn jurisdictions achieving their goal of automatic updates to the Land Register(s). Message to Land Registries - Industry requires a full XML response to a title search request.

Mike got the 'word of the day' award for "re-granularisation" whereby recipients have to parse an electronic message to extract the granular content, rather than being delivered the content in granular form in the first place.

2. The second is also critical, to develop standards for exchange of whole-of-deal data to facilitate mortgage processing instruction, as this is the start or first stage of any mortgage transaction (post credit). LIXI has a first draft of a Settlements Instructions standard, but companies like Perpetual have existing XML schema for New Loans (Purchase and Refinance) based on the LIXI standard. Perpetual's schema is currently in use with a few clients. Perpetual's schema is probably the basis of updating the LIXI Settlements Standard.

3. The third is a "post settlement" function and deals with security packets and Custodians, to develop standards for exchange of security packet requests and security packet data.

Perpetual has made progress with developing electronic interfaces and is working with partners to roll these out. Perpetual is also very willing to share the details openly with the LIXI community with an eye to enhancing electronic integration throughout the industry. Their schemas are all LIXI based:

- * Existing schema for New Loans (Purchase and Refinance)
- * Existing schema for Discharges
- * Existing schema for Packet Request
- * Still need to develop
 - o Productions
 - o Substitutions
 - o Upstamps (where these are still relevant)
- * Existing Web Services for New Loans, Discharges, and Packets

General Discussion: The ongoing viability of NECS was discussed, and in particular how this relates to industry requirements for improvements in the settlement processes. NECS had been in the news in the context of federal government funding and the ongoing commitment of the NSW jurisdiction. It was observed that the situation really had not changed much, NSW remains committed and the process is continuing.

That being said, there was virtually universal agreement that progress would be made regardless, since industry sees that solving the settlements problem is essential to reducing the cost and improving the delivery of mortgage settlement.

Brett Hayton: Discussed Metrics, or the way that the impact of settlement issues can be measured. In particular these are related to costed time, accuracy or quality, and elapsed time

- Labour costs - fundamentally equates to time (ideal system is when volumes increase, labour costs remain the same). As an example, Craigslist in US has 30 employees - online classifieds - estimated \$100M turnover
- Accuracy - reduce rework
 - caveat example from ECV indicates the importance of electronic integration as opposed to browser-based human interfaces, had to manually re-enter data from source system (in fact had to print out caveat manually to use as guide to reenter data)
 - same applies to lenders instructions to mortgage processor
 - reduction in errors is a key goal
 - metric - reduction in security docs being reissued
- Reduction of elapsed time
 - metric - faster turnaround times from unconditional loan to issued security docs
 - example - if practitioner can collaboratively share copies of the contract, title, transfer upfront (speed and accuracy increased)
 - metric - reduction in elapsed times from documents returned to ready to book
 - example - if practitioner can view the outstanding requirements, they can be dealt with more quickly and effectively by the client and practitioner
 - example - if practitioner can see status - ready to book / not ready to book

Problems that have been identified within the discussions:

Mtge Prep	Booking	Settlement	Stamping	Registration
Handling high volume of faxes	Long call queues answering settlement inquiries - "20 minutes on hold"	Physically attending settlement is a large problem	Not having the correct supporting documents	Unacceptable delays in registration
Losing faxed documents	Dealing with outstanding requirements	Settlements fall over	Retaining supporting documents as evidence	Losing priority because of delay in registration
Delays caused by conveyancers	Taking calls to book settlement when "not ready"	Wrong cheques	Miscalculations of stamp duty	Failure to register
Not getting copy contracts / transfers early	Not knowing available funds / payout figures til day before settlement	Missing or lost titles	Carrying risk of audit and miscalculations	Requisitions
Errors in mortgage preparation	Having to call to identify if a matter is ready to book multiple times	Execution errors discovered at settlement		
No email or support for email		Having to use bank cheques as opposed to EFT		
No system of paperless loans / electronic signatures				
Providing copy contract/transfer multiple times (Broker/Branch/Mortgage Preparation Unit)				

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